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Terms of reference for an independent review of the business model of the United Nations Office for Project Services*

Joint report of the Management Coordination Committee and the United Nations Office for Project Services

Context

1. The United Nations Office for Project Services (UNOPS) was created in 1994 by General Assembly resolution 48/501 as a separate and self-financing entity of the United Nations system, effective 1 January 1995, to act as a service provider to the organizations of the United Nations system (including the Bretton Wood institutions) with no policy mandate of its own.

2. UNOPS offers a broad range of services, from overall project management to the provision of single inputs. In responding flexibly to its clients' demands, UNOPS tailors services to their particular needs, applies methods for attaining cost-effective results and mobilizes diverse implementing partners.

3. At its annual session 2002, the Executive Board of UNDP and UNFPA expressed concern that UNOPS administrative expenditure had not been aligned with its income in the last two years, resulting in an operating deficit of $5.6 million in 2001 and the progressive erosion of its operational reserve to $5 million by the end of 2001, a level in the operational reserve substantially below that required by decision 2001/14. Accordingly, the Executive Board decided to carry out an independent review of the business model of UNOPS, its cost effectiveness and the scope for further expansion of business opportunities for UNOPS within the United Nations system in order to establish a framework for a sustainable UNOPS.

4. The Executive Board requested that the Management Coordination Committee (MCC) and UNOPS submit to the Executive Board for review and approval at its second regular session in September 2002 the draft terms of reference and a timetable for this purpose.

Objective of review

5. The purpose of the review is to formulate a forward-looking strategy for the long-term growth and sustainability of UNOPS to enable it to evolve within the readily evolving market of the United Nations system, including the Bretton

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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Woods institutions. The review will result in a series of recommendations and action-oriented proposals for aligning its cost and revenue structures and identifying areas of business expansion with cost-effective operating margins.

Scope of review

6. The Secretary-General, in his note to the Executive Board (DP/2002/CRP.5), reaffirmed his support for the work of UNOPS while laying the ground for operational improvements. Document DP/2002/CRP.5, in conjunction, inter alia, with document DP/2002/CRP.4 and Executive Board decision 2002/2 of January 2002, provides the basis for this review. These documents also reiterated fundamental principles that do not require further review.

7. The review will focus on the revenue and cost structures of UNOPS, its operating margins on products and services and its business processes and management tools at hand. Essential elements for consideration by the review include competitiveness, cost-effectiveness and self-financing.

8. *Competitiveness*. This should include a review of the market for products and services currently offered or potentially available from UNOPS, for which there is a growing demand and for which UNOPS is able to provide quality service and cost-effective operating margins. The review should include an assessment of all possible clients within the United Nations who may have a need for such services.

9. *Cost-effectiveness*. The review should identify the extent to which revenue matches the costs of providing products or services. A review of the cost structure should include fixed and variable costs and identify scope for improved cost-effectiveness in terms of business processes and procedures, organizational structure, location and so forth.

10. *Self-financing*. This means providing accurate model(s) for measuring cost recovery in a multi-year programme environment with operational surges and potential lay periods. This should include an assessment of systems in place for monitoring and measuring costs and increasing efficiencies. Scenario-based projections of UNOPS finances and the impact on the operational reserve with details of assumptions behind the projections must be included. Systems, procedures and contractual modalities appropriate for a self-financing entity, which faces fluctuations in demand and which allows UNOPS to moderate volatility by adapting flexibly to operational peaks and troughs, should also be considered. In particular, flexible-staffing arrangements, rules and procedures, which allow UNOPS to expand and contract its capacity rapidly in response to changing demand, should be considered.

Approach

11. The review will take stock of the conclusions and recommendations of the already available decisions, reviews and evaluations.

12. Comparisons should be made with other United Nations, multilateral, bilateral public and private non-subsidized service providers in the areas of project management, including execution, implementation, supervision, loan administration, formulation, advisory and other services, with a view to identifying good practices in terms of flexible, effective and efficient business models and processes.

Outputs

13. The review will build on prior reviews in that it would present a set of recommendations and action-oriented proposals for the strengthening of the UNOPS contribution to the United Nations system for the future. Such recommendations and action proposals may include:

(a) Positioning UNOPS in the United Nations system in order to bring to full fruition the benefits derived from the UNOPS business model;

(b) Mechanisms to enable UNOPS to adjust flexibly to fluctuations in demand through a more adaptable cost structure and efficient business processes;

(c) Identification of areas of potential business growth based on market demand and cost-effective operating margins;

(d) Tools required for change-management from an organizational perspective, including, inter alia, (i) *financial*: definition of self-financing, budget cycle and operational reserve(s); and (ii) *human*: staffing model, incentives and accountability.

Logistics and budget

14. The review team will have access to all decisions, reviews, reports and documentation, including questionnaires and surveys and field mission reports from previous reviews and studies; thus avoiding the need for further comprehensive surveys. To supplement the desk material, the team will have full access to members of the Executive Board, UNOPS staff, clients, beneficiaries and partners. The review team will work under the auspices and guidance of the MCC.

15. The duration of the review is estimated at 90 days. The core team will be comprised of three experts in international public administration/service delivery with specific experience in public sector management. One of the team members should be intimately familiar with the development cooperation market within the United Nations system. The team should also have familiarity with peacekeeping and humanitarian activities of the United Nations system. The team should be able to draw on short-term consultancies, not to exceed 30 working days in total, of specialized expertise in accounting or other disciplines as required. The total number of working days, therefore, is budgeted at 120, which would represent approximately $200 000.

16. The actual cost of the review will depend on team composition and overall approach to the review (inclusive or exclusive of field visits and so forth). No budgetary allocation is foreseen in the UNOPS budget approved by the Executive Board at its annual session 2002. Members of the Executive Board may wish to consider voluntary contributions to finance the review.